RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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October 17, 1990 **LETTER 1054**

CHAOS: I've warned about this for years. Now it's happening. The compounding debt and deficits of the US are taking on "a life of their own." Like a cancer, the proliferating, compounding US debt is eating the economy alive. The Congress doesn't understand it, doesn't know what to do about it. So their response is more taxes, plus the usual deceptions, lies, cover-ups. Mr. Bush's popularity dives as he waffles and squirms and finally throws up his hands in confusion. His economic leadership quotient sinks to zero.

Bush was elected on a "no more taxes" ticket. The public believed him. Now a demoralized Congress is working on one of the largest tax boosts in US history. The public hates it. They feel betrayed. Their reaction: (1) "Throw the rascals (incumbents) out." (2) And if you can't get them out, limit their terms of office.

Meanwhile, the US deficits compound and increase at the rate of over $1 billion a day. Next year, well over $300 billion will be added to the national debt. At 8% interest, that adds an additional $24 billion in interest costs. Add the costs of the S&L debacle (not shown in the budget), and the federal debt is off into space again, regardless of whatever cuts Congress comes up with.

The people don't want taxes, they want cuts. They want to cut the fat out of government. The recession is throwing tens of thousands of people in private industry out of work. Unemployment is surging. But the politicians won't let the government shrink. Let the private sector be subject to the law of supply and demand, but whatever you do -- keep the government payrolls intact.

There's only one solution. Cut government across the board. Cut every agency, every department 10%, 20%, whatever it takes. Cut entitlements. Cut the military. But there's one thing they can't cut, and that's the interest on the careening federal debt.

According to the White House's mid-year review, interest cost on the national debt will reach $260 billion in 1990, $277 billion in 1991 and $293 billion in 1992, and $309 billion in 1993. In other words, by 1993 interest on the federal debt will actually surpass our whopping military expenses! And if you don't think that's being eaten alive, guess again.

For years I've been pointing to the dangers of compounding the federal debts and deficits. I said it would ultimately have to lead to (1) lowered standards of living for Americans, (2) a collapsing dollar, (3) a disastrous economic climax. It's obvious -- if you keep borrowing from the present you must either (A) face an ultimate pay-back time, which will mean a depression, or (B) inflate in order to reduce the power of the rising debt. But when you inflate, you wipe out savings and reduce buying power. So either way, A or B, you get a lowered standard of living and finally -- recession or depression.

Let me put it another way -- if you keep compounding your deficits long enough, something has got to give. Unfortunately, at this point everything seems to be giving at once. (1) The dollar is giving, (2) the economy is giving, (3) the stock market is giving, (4) the American standard of living is giving, and (5) the credibility and prestige of Congress and the President is giving.

THE PICTURE: The bear market decline has been a shock to Wall Street and the nation. The 1974-89 bull market advanced the Dow 2423 points. So far, this bear market has erased 24.4% of all the gains of those 15 bull market years. And that's just the Dow. Individual stocks have been decimated, many having lost 50% to 75% of their value. But historically, bear markets are measured in terms of the Dow. And on those terms, the bear has further to go.

Oct. 5 DJIA 2510.64; PTI 3189; A-D Ratio -16.86
Oct. 12 DJIA 2398.02; PTI 3173; A-D Ratio -18.05
Dow Yield: 4.23%; Dow P/E: 11.6; DowPow: -1069
Dow 200-day MA: 2715; Dow 30-day MA: 2540
Dow Book Value: 1276; PTI 89-day MA: 3248
Percentage of Undervalued Blue-chips: 36%

A bear market doesn't end until it discounts the worst that can be seen ahead. And the bear doesn't retract its claws until he is exhausted. Aside from extent, there's a time element involved in a bear market. The preceding bull market lasted for 15 years, from 1974 to 1989. I would think that this bear market (already a year old) would last another year or so, maybe longer.

My Primary Trend Index (PTI) has served us well, forming a huge head-and-shoulders top and then breaking down and turning decisively bearish in July. From its peak of 3304, the PTI has dropped a total of 129 points so far. For comparison purposes, during the 1973-74 bear market the PTI dropped a total of 939 points.

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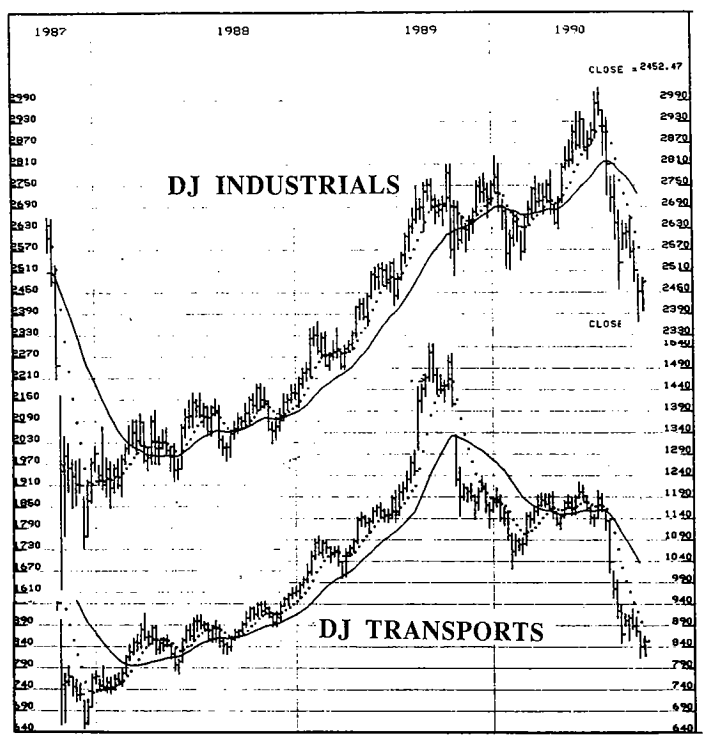
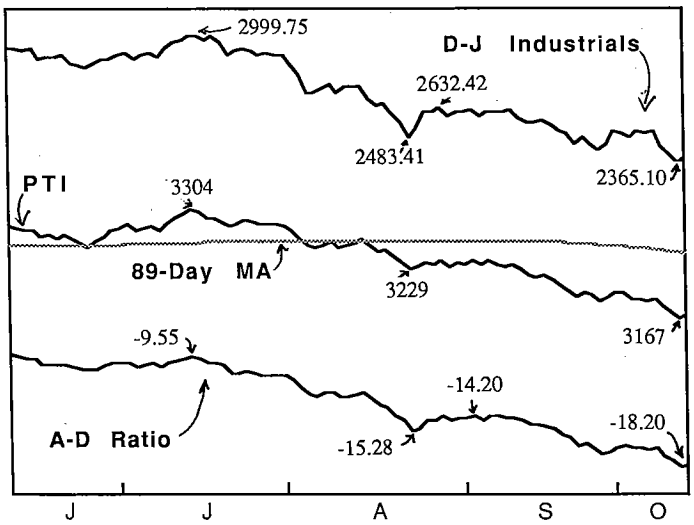
Bear market rallies can be extremely impressive, often looking better than the real thing. Bear market rallies are typically violent and rapid. In fact, it is not unusual for a bear rally to retrace in a few days what the bear market eroded away over the course of many months.

On September 28, the Dow opened (10 AM hourly price) at a low of 2380.69. On October 2, two days later, the Dow surged to a level of 2545. That upward rush represented a retracement of 165 Dow points in less than three trading sessions.





The 1990 bull market high for the Dow was 2999.75. On September 27, the Dow closed at a low of 2427.47. That represented a loss of 573 Dow points. Now consider this: the three-session bounce of September 27 to October 2 retraced 165 Dow points or 28% of all the Dow losses of 1990. That's typical bear market action -- tedious and tortuous on the downside, rapid and explosive on the upside. Following that "instant correction," the Averages broke to new bear market lows. Want to trade the rallies in a bear market? Be my guest!

Every primary bull market has a problem. The problem: how to advance without attracting too many followers? What's the solution? Easy. Produce a recession or two, occasional downside market corrections, a few panics, plus lots of frightening or discouraging rumors.

By the same token, every bear market has a problem. The problem: how to get to its downside target while keeping as many investors aboard as possible? Solution -- produce encouraging economic news, produce explosive stock market rallies, and throw in "constructive" manipulations by the Federal Reserve. Finally, add optimistic political pronouncements.

The fact is -- people possess an inborn optimism, a stubborn conviction that come hell or high water "everything's going to work out well in the end." This innate optimism is of great use to the bear. It causes people to hang on to their stocks in a bear market, despite crashing prices ("What? Me sell Dumpster International, you've got to be kidding. My father gave me this stock 32 years ago -- it's a backbone-of-the-economy kind of company. I could never sell it.").

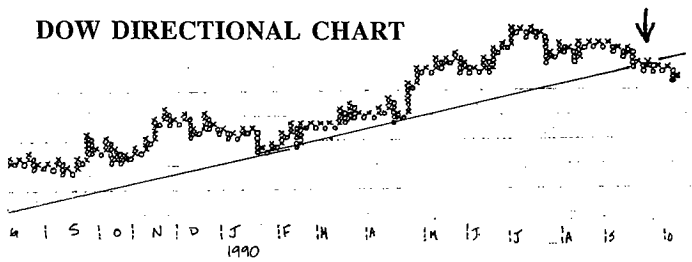
* *

OVER-DOING IT ON THE DOWNSIDE?: On page 1, I've included weekly charts of the D-J Industrials and Transports (charts courtesy of *Mansfield*). As you can see, the long-term moving averages for both the Dow and Transports have now turned down and the price action has plunged far below the moving averages.

However, the angle of descent is awfully steep in both Averages, and the declines cannot be sustained at this rate. So my thought is that this should lead to either sideways action or upward corrective action. Put it this way -- the Dow lost well over five hundred points in a period of three months. If this rate of decline continues, the Dow will be down to zero in a little over a year. That's obviously not going to happen. Therefore, I would think that somewhere ahead the bear is going to stop for breath, and maybe correct to the upside.

Two caveats: First, EVERYBODY is talking about a rally. Every analyst and guru is promising a rally. In the face of this, it is well to remember that the market does whatever it has to -- to frustrate the greatest number of participants. And a heck of a lot of participants are praying for a rally now.

Second caveat: I've alluded to this many times before, but I'll say it once more. The Dow Directional Index (DDI) has been rising on a trendline basis ever since the 1989 mini-crash low. The DDI is the Index that tracks each day of advance or decline in the Dow -- regardless of the amount of the advance or decline. Last week, the DDI finally broke its rising trendline. Thus, from here on the action of the last two years should be reversed, and we should see more days of decline than advance in the Dow. But here's the frightening part -- the Dow dropped over 500 points with the DDI still in its rising trend. What happens now with the DDI finally in a downtrend? Also, will the downtrend in the DDI be as relentless as the uptrend has been?



Speaking of possible corrections, this paragraph from the current *Lowry's* report (631 US Highway One, N. Palm Beach, Florida 33408) is worth studying: "A thirty-day rate of change measurement of the DJIA reached a low of minus 17% in late-August. Declines of this severity have occurred only seven times since 1960. All but one occurred near important market bottoms. Unfortunately, the exception was the onset of the first energy crisis in November 1973 and it preceded the 1974 recession and the worst bear market since 1929." Russell comment: It looks like we have another exception here in 1990. In the investment business, it's the exceptions that can kill you.

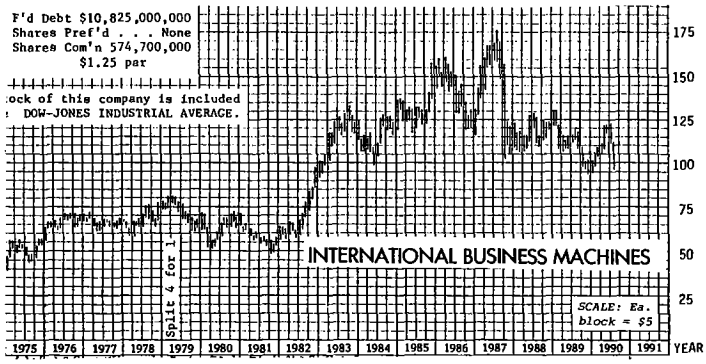
DOW STOCKS: What about the Dow stocks themselves? As usual, some are doing better than others. The best acting Dow stocks are Aluminum Co., Boeing, Chevron, Exxon, Merck, MMM, Phillip Morris, Proctor & Gamble, and Texaco. The worst acting are Allied Signal, Amer. Express, Bethlehem Steel, Kodak, Goodyear (a horror), Navistar (another horror), Sears (chronic trouble in their retail divisions), and Union Carbide (too much debt).

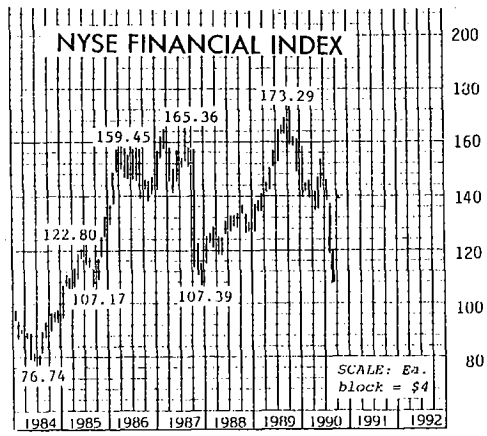
General Motors, once (and maybe still) the bellwether of the stock market, hit a new 52-week low on October 4 -- this at a time when GM is about to put its new Saturn car on the market. Wall Street seems to be saying that Saturn will not be a winner. The word is that Saturn is, at best, on a par with comparable Japanese cars. To be a winner, Saturn has to be better.

Is there a single bellwether stock today? I was never one to reduce market analysis to the action of a single stock, but I guess if I had to pick one stock, it would be IBM. IBM is certainly one of the world's most-watched stocks. IBM topped out in 1987 at just over 175, broke below 90 in December 1989, and has been floating around in limbo (subject to recurrent rumors) ever since. As of now, IBM is down about 40% from its bull market high. Its relative strength for months has been about on a par with the general market, no worse, and unfortunately, no better (page 3 chart courtesy of *M. C. Horsey & Company*).

Speaking of bellwethers, each bull and each bear market seems to produce its own special bellwether. If there is a single bellwether or leading indicator in the market today, I'd have to vote for the NYSE Financial Index. This Index (which is watched by very few) contains ALL the financially-related stocks on the NYSE including the bank stocks, the S&Ls, the small loan companies, the insurance companies, the brokers.

This monthly chart (courtesy of *Horsey*) shows what has happened so far. From its bull market high of 173.29 recorded in 1989, the Index has dropped to a recent low of 110. This means





that the Index has lost 36% of its value so far in the bear market. Of course, a lot of financial stocks have lost a good deal more than that -- and following the collapse of the S&Ls, I feel that the current collapse of the bank stocks and the insurance stocks is an extremely bearish omen. Our financial institutions are choking on bad loans, junk bonds, and poor real estate loans based on shrinking collateral (the shrinking collateral, of course, is deflating real estate).

INVESTMENT POSITION: Need I say that the bear is in the box? It's a bear market, and in a bear market you need liquidity. Liquidity means cash, and that means T-bills and money market funds (preferably funds dealing with government obligations, and preferably those obligations are Treasury bills and notes). I also like gold coins. Finally, I have repeatedly recommended the hard currencies -- the Swiss franc, the German mark and even the Japanese yen.

It may be a bit late to buy the foreign currencies, (because of the dollar's collapse), but you can simply buy the currencies as part of a diversification program. The German mark is now the key foreign currency, and almost all the major currencies are now tied to the German mark (this is the so-called European Monetary System). The EMS currencies must fluctuate within a narrow band, holding within 2.5% of the value of the mark. Britain, in a surprise move, has joined the EMS, and on the news, the pound exploded upward to the $1.92 level.

Some of the big brokerage houses have foreign currency funds, but the commission or charges are too high.

One way to buy the foreign currencies is via the Swiss banks. Giant Swiss Bank Corp. has offices in many big cities including NYC, Atlanta, Chicago, Dallas, Houston, LA, Miami, SF. Call them for information. However, they require $200,000 to open an account. The Overland Bank, PO Box 5022, Bellariastrasse 82, CH-8022, Zurich, Switzerland, will open accounts for $20,000. Write them for info, FAX 01-482-2884 or phone 01-482-6688.

Salomon describes the dollar as an undervalued currency that is nevertheless headed down. I agree, but the dollar could be ("should be") ready to at least try to rally. On a purchasing price parity basis, the dollar is cheap (it buys a lot in the US compared to what other currencies buy in their own respective countries). But the US' finances are in such disarray that the pressure remains on the dollar. Everybody wants out of dollars, and every time Bush or Congress open their mouths, dollar-holders' desire to be out grows stronger.

Russell poem: I used to love the dollar when the days were long and dark (the 1930s). Now I'd trade a dollar for a Swiss franc or a mark.

HELP! I guess this bear market is raising the fears of readers, because every day I get literally dozens of letters, and each one of the writers wants personal investment advice.

I appreciate all the letters and all the problems, but if I began to answer all these letters I wouldn't have any time to write Dow Theory Letters. Furthermore, each of the writers is in a different financial position, and each has different objectives. Each is of a different age and each has different amounts of assets. So that makes it awfully hard to solve the problems through the mail. And that's the reason I have the "Investment Position" box. In that box I tell what I do, and let's face it -- if I do it with my own money that's what I believe!

Finally, I have delisted with the S.E.C. as an investment advisor -- I'm just a publisher. Therefore, I'm not allowed, legally, to offer private advisory advice. Let me put it this way: I don't have to be registered with the S.E.C. if I publish on a regular basis (like *Barron's* or *Forbes*), if I give only impersonal advice as opposed to individual advice, and if I do not advertise or claim to be an investment advisor.

All of which means that you will have to glean what you can out of Dow Theory Letters. I put a lot of work into these Letters. I put all that I know into the Letters. Believe it or not, they take up a lot of time, and a lot of reading and research.

I have 8,000 subscribers here in the States and around the world. Besides subscribing to everything in sight, I trade publications with about 40 different sources, and it takes time, lots of time, to read everything that comes in. And believe me, I read (or skim) all of it, including the dozens of letters that arrive each day.

So please, don't write and ask me for personal investment advice. I can't give it. In most cases, I'm not smart enough to give it. And legally I'm not allowed to give it.

Next, a lot of subscribers seem to be worried about my health, and they want to know if I have anyone who will take over when I zoom skyward to the great analyst's resting place in the heavens. I don't have anyone who can take over, but here's the story. A great psychiatrist in New York once wrote that in all his practice, he's never had a patient who didn't know, or have a presentiment, of his own impending death. In other words, this good doctor states that in his own wide experience he has found that people seem to know when they're about to die.

Well, I agree. And I can state here and now that I feel fine, I'm in good health, and I intend to live well into my 80s. Besides, a famous old German psychic-lady confirmed that I will live into my 80s. I told her, "Hell, I want to live to 100." She shook her head, "You will live to your 80s." The woman was 84 at the time, and I kidded her, "You'll probably make it to 100 yourself." "No," she replied again, "I'm too old already." Six months later, Afra Waesch (that was her name) died.

NOTES & QUOTES: The Bush "nightmare scenario" is this: Hussein suddenly announces that he is pulling out of Kuwait. He further announces that there will be a "free election" in Kuwait, and a new "elected" government will be installed. In the meantime, Arab and world pressure call for "all foreign troops" to exit from the Mideast. The US is forced to pull out. Hussein continues to

work on his nuclear capabilities. Iraq is a greater threat to Saudi Arabia than ever. The Bush strategy has utterly failed. Next?

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Mr. Bush's popularity rating has been doing a swan dive. Part of it is his reversal on his "No new taxes" promise, part is his lack of economic leadership and his flip-flopping around on the budget, and a growing part of it is the Mideast mess. Under an editorial headed "Political Ineptitude," the *WSJ* (Oct. 10) had this to say: "The President finds himself going into the mid-term elections at war with his own party, giving up on the issues that won him the presidency, and in fact sounding the themes of his opposition. He is currently at the mercy of Congressional Democrats, and unless he somehow manages to seize the initiative, our bet is that the damage is only starting. As the scenario unfolds, he's likely to find himself hamstrung about not only the budget but the Middle East, crippling the next two years of his presidency."

* *

From the top to its recent bottom, Japan's bear market has sliced off 48% from the widely-followed Nikkei stock average. In dollars, the losses amount to $2.1 trillion, equal to two-thirds of the total US federal debt. And if you think that's not a lot, think again -- or ask the average Japanese stockholder. The stock market always discounts the future, and Japan is no exception. Business is starting to slow down in the Land of the Rising Sun.

The big question remains, however, and it is -- will the Japanese real estate bubble burst, or will prices tend to hold? I'm a firm believer in the thesis that all values ultimately reflect the RETURN ON THE INVESTMENT. On that basis, count on it --the Japanese real estate market will come down to earth, and maybe not quietly.

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Speaking of losses, the Wilshire Index of 5,000 stocks (all exchanges) is expressed in dollars. The Wilshire's 1990 high was 3,518 and its October 11 close was 2,772. This amounts to a loss of $746 billion for the bear market in 1990 alone. Add the losses in bonds, mortgage values and real estate prices and you're talking total dollar losses in the trillions of dollars. The effects of these losses will show up in the economy during the months ahead.

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One of the goals of the new Europe is a single currency. But the new unified Germany is shaping up as a major stumbling block. The Bundesbank is the most powerful and influential central bank in Europe, and they are cold on the idea of a single currency. The Bundesbank argues that matching nations that have small deficits and low inflation with heavily indebted, high-inflation nations is the prescription for trouble. Translation: Germany, which is fiercely anti-inflation and very disciplined financially, is fearful of giving up their powerful mark for a single European currency that is out of Bundesbank control. Furthermore, Chancellor Kohl recently said, "No," when France's Mitterrand tried to commit Germany to a timetable on the single European currency.

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Price of a gallon of unleaded gas (this is three weeks ago) in Italy -- $4.00, in Switzerland -- $5.08.

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Want a great yield? Donald Trump's Taj Mahal bonds, the famous 14s of 1998, are selling at a new low of 31 or 31 cents on the dollar. The yield -- 45.2%. Only problem is -- I don't think Trump is going to make it, and neither does the market. Trump's prenuptial agreement with Ivana was for her to get $20 million in case of a divorce. It looks like divorce is in the bag, but I don't think Trump has $20 million.

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My old friend, Marty Zweig, is growing progressively more pessimistic. In his latest mailing he notes, "Everybody's bullish because everybody's bearish. Huh? It's strange, but from what I've been reading most technicians have called for a rally based on two factors; there's been too much pessimism and the market is oversold. I've never seen so many looking for a rally. I've also lived through some ugly bear markets such as 1969-70 and 1973-74, and I can assure you that such markets get very oversold amid rampant pessimism, and then prices fall even faster. I also believe that the background conditions now are much worse than either of those two periods, and they produced the worst two bear markets in the post-war period."

Marty then notes that "creation of bank debt, used so mightily to fuel the debt boom of the past two decades, has collapsed to a 20-year low. We're talking about some $300 billion here! The banks' balance sheets are in horrendous shape. They are now concentrating on restructuring and writing off bad loans, and they are not so anxious to make new ones. . . or they don't have the capacity to do so." Russell comment: Marty is one of the smartest guys in this business, and he's always worth listening to. He adds in this same report, "As for conditions, I believe that we're already in a Recession which has a chance of becoming an outright Depression because of the massive debt build-up which is now beginning to unravel."

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I have an article in the current (October 8) issue of *Barron's*. This is about the twenty-fifth or so piece I've written for *Barron's* over the last 32 years. I feel a great loyalty and affection for *Barron's*. Back in the late-1950s, I wrote a series for *Barron's* on the Dow Theory. At that time technical analysis and the Dow Theory were ignored or despised, and that series of articles created a minor sensation. They also went a long way toward putting me in business.

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Shocker: A new book is entitled Agents of Influence: How Japan's Lobbyists in the United States Influence America's Political and Economic System (Peter Choate, Knopf). Choate agrees that everyone is entitled to the best representation, but he is appalled by the cynicism of the current situation. For instance, the Justice Dept. attorney who was in charge of extraditing coke dealers to the US is now working for the bosses of Columbia's Cali coke cartel. Frank Church, former chairman of the Senate Foreign Relations Committee, is now working for the Japanese government. Four of the last eight US Trade Representatives are now working for foreign concerns, three of them for Japan. Choate says that Japan hires so many US insiders that they have a better idea of what's happening here than all but a few US experts. Choate estimates the Japanese lobbying costs at around $400 million, which is about equal to the 1988 campaigns of both the House and the Senate. Russell comment: money can't buy happiness, but it can sure buy a lot of Washington insiders.

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Is Japan still a tough competitor in the auto industry? Ponder this: Japan builds cars at half the man hours and one-third the defects, in half the factory space of traditional mass producers. Japan also gets by with one-tenth of in-process inventories. During the 1980s, Japan developed new models in an average of 46 months against the traditional car makers' time of 60 months.

* *

Voters are mad as hell, and evidently they don't want to take it anymore. Oklahoma (by a two to one margin) passed a law limiting the terms of its politicians. The anti-incumbent initiative passed every one of Oklahoma's 77 counties. On the November ballot in California there are two separate measures limiting the terms of politicians in this state. And I wonder how long it will be before the same restrictions are put on our perma-politicians in Washington? Personally, I'm 100% for it and I've been advocating limiting political terms for years. I think political dynasties have been an unmitigated disaster for this country. But what about the good men who will be thrown out of Washington if such a law is passed? My answer: that's the price we pay for decent government. And when you think about it, Washington, Jefferson and Madison did pretty well with limited terms (Washington, by the way, limited his own stay in office).

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I know real estate is soft, but this can't be typical (can it?). Rudy Vallee's mountaintop home in Hollywood Hills was priced to sell in 1986 at $10 million. Nine months later it was reduced to $5.5 million. Arsenio Hall of talk show fame, flew over the two-acre property in a helicopter, never entered it, made a bid for $3.5 million and got it.

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Sears stock is currently selling at less than 75% of book value. Sears is having no end of trouble in its retail division -- it just can't make it very profitable, and margins on retail sales have recently dropped to 1.3%, despite repeated restructurings. Says Margo McGlade, retail analyst for Paine Webber, "The market is assuming the Sears retail network will not exist in, say, five years." Sears not selling retail -- wouldn't that be a shocker!

* *

The drop in the hotel stocks is a shocker. Hilton has dropped from a high of 109 to 27 1/2, a drop of 74%. Marriott has collapsed from a high of 43 1/2 to last week's low of 8 3/4 a loss of 79%. Russell bet: expensive hotel rooms are the trend of the past.

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In the year and a half since the Bush administration launched its program for dealing with Third World debt, the problems of the Third World nations have increased dramatically. Interest rate payments in arrears to commercial banks have jumped three-fold to $22 billion. These tardy payments impact mostly on the world's biggest banks, including such US banks as Chase and Citicorp.

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Sometimes it's hard to visualize the on-going collapse in the buying power of the dollar. This set of statistics from *Baxter* (Greenwich, Conn.) shows the picture in terms of items that you and I buy. It's worth studying:

COMMODITY, PRODUCT OR SERVICE	1934 PRICE	1977 PRICE	1990 PRICE
Loaf of bread (standard loaf)	.10	.79	1.59
Quart of Milk	.10	.50	.75
Men's work shoes (Penney's best)	2.98	30.00	70.00
Pound of Hamburger ('34-3 lbs. 25)	.10	1.50	1.89
Deluxe Chevrolet sedan (full size)	820.00	6,000.00	20,000.00
Thousand feet of lumber (at the yard)	25.00	300.00	350.00
Regular letter postage	.02	.13	.25
Hourly rate day laborer (RR section)	.25	2.50	8.00
Popular slick paper magazines	.10	.75	2.00
Movie ticket	.25	2.50	7.00
Haircut (men)	.25	2.50	10.00
Gallon of regular gas	.16	.65	1.39

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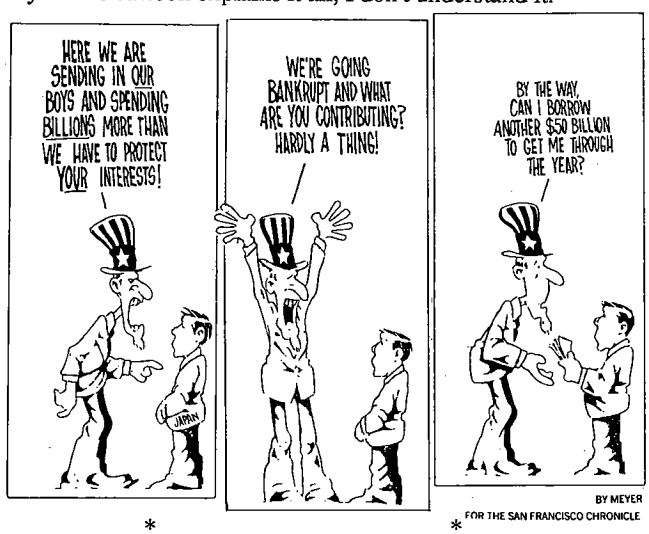
If you wanted to give five thousand dollars to your favorite charity, would you borrow the money in order to give? That's what the US does, and it somehow boggles my mind. On the one hand, our government is borrowing at the rate of over $1 billion a day, and on the other hand it is giving billions of dollars to other nations. Maybe this cartoon explains it all, I don't understand it.


WERE WE ARE SENDING IN OUR BOYS AND SPENDING BILLIONS MORE THAN WE HAVE TO PROTECT YOUR INTERESTS!
JAPAN
WE'RE GOING BANKRUPT AND WHAT ARE YOU CONTRIBUTING? HARDLY A THING!
BY THE WAY, CAN I BORROW ANOTHER $50 BILLION TO GET ME THROUGH THE YEAR?
BY MEYER
FOR THE SAN FRANCISCO CHRONICLE

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When I was a kid in NYC, we had a marvelous, once-in-a-lifetime mayor. He was diminutive Fiorello LaGuardia, "the Little Flower." Half Italian, half Jewish, all man, LaGuardia scared the hack-politicians to death. When they dropped him from the party ticket, LaGuardia ran as an independent and announced, "I can beat those political bums on a laundry ticket." LaGuardia was everywhere, speaking, cajoling, threatening, prying. If a big fire started, the Flower would jump on a fire engine and go to the fire. If a good new restaurant opened, the Flower would be there, wolfing down kosher, Italian, Irish, you name it. When the NYC newspapers went on strike, the Little Flower read the comics to the kids on the radio. New Yorkers loved him. LaGuardia brightened up the dark days of the Depression.

Today, NYC has dignified, black Mayor David Dinkins. Dinkins is a character. He loves the good life, owns four tuxedos, soft-pedals the most shocking events, loves to be honored, adores dressing up, is a terribly decent guy, but doesn't seem to know what's happening. When a visiting youth was killed on the subway protecting his mother, Dinkins gave his standard speech assailing Washington and Albany for being soft on gun control. After the speech someone told the mayor that the kid hadn't been killed with a gun, he'd been stabbed to death. And Dinkins loves tennis. He used a police helicopter to attend the tennis matches at Forest Hills, and actually had air traffic rerouted because the planes made too much noise over the matches. In early September, in the face of a crime wave, the New York Post screamed in page 1 headlines, **"Dave, Do Something."** Equally exasperated, famed newspaper columnist Jimmy Breslin commented, "David Dinkins does absolutely nothing but change his clothes." And so it goes -- it's life in the big city. But I'd guess NYC is ready for another LaGuardia.

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Noted economist Ed Hyman of *C.J Lawrence* notes in his latest mailing, "We were counting on the Midwest keeping us out of recession." But then he shows two charts, one of "consumer confidence" in the Midwest heading sharply down, and a second chart of "help-wanted advertising" in the Midwest caving in.

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Welfare Fiasco: In Holland, the government announced that one out of six workers (845,000 people) are at home,reporting sick or unable to work. The welfare state also supports a huge pool of retired. In fact, the Dutch found out that 4.5 million workers are supporting the nation's 15 million inhabitants. Said a Dutch corporate executive, "Our welfare state was meant to provide a safety net, but it has turned into a hammock."

And I wonder how the US would look if you added up everyone -- homeless, on welfare, out sick, on drugs, in prison, retired, or simply dealing outside the system. I dare our government to come up with the real figures.

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Money: Smith Barney projects that the US Treasury will sell $225 billion of new marketable securities during 1991, up from $200 billion this year (the boost is due in part to the S&L debacle). For the fourth quarter SB projects a federal deficit of $65 billion and RTC (S&L) working capital needs of $15 billion for total financing requirements of $80 billion. Concludes SB, "We're anticipating continued increases in auction sizes, including another record-size quarterly refinancing package of $33.5 billion in November." Russell comment: Were you worried about a shortage of Treasury paper? It's becoming a paper blizzard.

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Washington's policy of beating the dollar down is a huge mistake. The Treasury has pushed all year for a lower dollar, and they're sure getting their wish. Only problem is that there's now a flight from the dollar, this when the US needs all the financing from any and all sources. Under these conditions, the last thing the US needs is a flight from dollars.

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People ask me what they can do "to help the country" in these difficult times and in the face of this primary bear market. I tell them that the most patriotic thing they can do is to stay solvent. When the bear market hits bottom, it's the solvent investors, the people who still have money, who will buy at or around the bottom and thus trigger the next bull market.

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The Producer Price Index released on Oct. 12 shows wholesale prices rising at an almost 20% rate. Can the Fed ease short-term rates with this kind of inflation?

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People are whispering -- that maybe Bush will be tempted to start the war with Iraq and thus take the pressure off his chaotic domestic troubles. After all, knocking out Hussein (if he can do it) would save the West from a "madman," avoid the risk of nuclear war, bring down the price of oil, and remove the reviving "whimp factor" from the Bush portrait. Of course there's a problem, a war in Iraq might not be so easy to win. Also, the Arab world is expressing growing doubts about the US and its intentions.

UNCONNECTED THOUGHTS: I note that the *Wall Street Journal* on October 12 finally agrees that it's a bear market. The third section headlines, "Market Meets Definition of a Bear as Industrials Drop 42.82 Points." Well, the *Journal* should know it's a bear market. The stock of Dow Jones is down from a 1987 high of 56 1/2 to the current low of 19, a loss of two-thirds of its value. *USA Today's* headline on the same day was "No End in Sight for the Gloomy Dow." Are the newspapers getting too pessimistic?

Some months ago I bought German marks and Swiss francs. It's the old story -- you never buy enough of a good thing. In retrospect I wish I had put most of my cash assets into either currency. It's ironic. Today there's a rush for cash in the US, and overseas there's also a rush for cash, but it's not dollars they're rushing for -- it's the hard currencies.

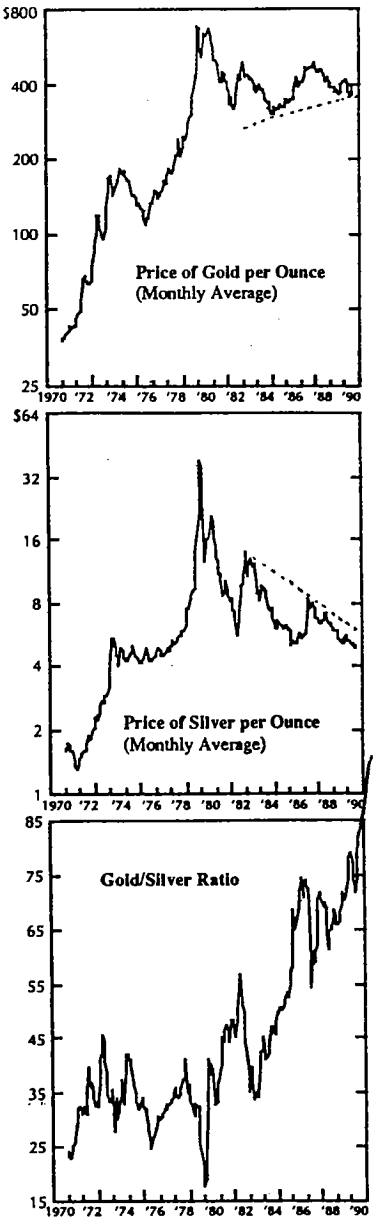
Would I buy more marks or francs or yen now? The dollar has dropped so precipitously that I'm afraid to. And of course the stock market has collapsed with a vengeance as well. At this point I think I'd rather just sit tight with what I've got. I feel there's just as good a chance of a big stock market rally as there is of the hard currencies continuing higher from here. Therefore, I think I'll simply wait. I wouldn't slap a lot of money into a bear market rally, but the decline in stocks has been so severe that I'd have to guess that the next upward correction in this bear market should be impressive.

One mistake people make, however, is to think, "Gee, a lot of great stocks have collapsed and their fundamentals just aren't that bad. I think I'll buy an assortment, they're just so cheap." Which is of course wrong thinking in a primary bear market. About a year ago one service I read stated that the two cheapest stocks on the Board were GM and Chase Manhattan. But look what's happened since then. Fundamentals on both companies have turned bad and the stocks have been hitting new lows. People forget that the market LOOKS AHEAD, the market deals with conditions **as they will be** six months or a year from now, not conditions as they are today. People also forget that rallies in a bear market (against the primary trend) do not forecast changed business conditions, such rallies **merely correct** a market that has gone down too far and too fast.

Financial World mag (under new management) is an excellent magazine. If you haven't seen a copy, try one -- I think you'll like it.

My brother-in-law makes movies and teaches film at NYU. Years ago he told me that Martin Scorcese was the most talented student he ever had. I believe it. Last week we saw Scorcese's new movie, "Goodfellas". It's a terrific movie, lasted two hours and twenty minutes and I never once looked at my watch. Joe Pesci's performance as a psycho killer was astounding . . . However, I believe the level of violence in today's TV and movies is at the danger point. All this mayhem has, I think, desensitized much of America's youth to death and destruction. I see some of the old movies on TV, movies that I thought were gory at the time, and they look utterly tame today. Times have changed. And as a Black Panther put it, "Violence is as American as apple pie."

I don't know why Mr. Bush is so obsessed with cutting the capital gains tax. Besides, the way the stock market and real estate are going, there aren't going to be any capital gains! As for raising the taxes on the rich -- pushing the top bracket from 28% to 31% will bring in only $6 billion over the next five years (that's equal to six days of US deficits). Why don't they stop driving the poor citizens nuts with their nickel and diming! What this nation needs is not more ridiculous taxes, we need MASSIVE budget cuts plus a national sales tax. Forget cutting the increases in the deficits, this nation needs to CUT the actual deficits. And that's going to be unbelievably painful.



GOLD, SILVER: Six months ago precious metal advisors were telling their readers that silver was "dirt cheap," so spread the metals -- buy silver futures and sell gold futures. I didn't agree. Those who did that spread lost their shirts. Gold has crept up or hung on and silver has splattered to a 14-year low. The silver/gold ratio has now surged to 92, meaning that an ounce of gold will buy an incredible 92 ounces of silver.

These charts from my old friend (and football fanatic) Kennedy Gammage (the *Richland Report* in La Jolla) show you what's been happening to the two metals over the last twenty years. The silver/gold ratio is now up and off the chart -- as previously stated at a phenomenal 92.

I've said this before, but I'll repeat it -- gold is a precious metal and a monetary metal. Literally every central bank the world over holds gold in its reserves. Silver (and platinum, for that matter) are precious metals when the primary trend of the market and economy are bullish. But in a bear market (when everybody wants less of everything except cash or gold) silver becomes an industrial metal and people start talking about "the huge surpluses of silver".

LATE NOTES: Latest 12-month addition to the federal deficit (this is the **REAL deficit**) -- **$386 billion --** or at the rate of $7.42 billion A WEEK and climbing! Rising interest costs plus falling profits next year will wipe out any gains to the government budget that might come from rising tax rates . . . **Gold,** grrrr, ooof, it's going to take all the patience we've got. But nothing's easy in this business . . . T-bonds and the Utility Average are now in minor uptrends. When both of these are advancing, the market has almost always responded by rallying. On top of that, this market is very oversold. But as I said, it's those exceptions that kill you. And this bear market has been exceptionally brutal. Actually, the 1990 decline has been one of the most vicious I've ever seen. Taking the whole previous bull market as having started in 1974 and ended 2423 Dow points higher in 1990, the bear market has now wiped out 26% of 15 years of bull market gains in a matter of months. The over-the-counter damage has been much worse -- 48% of the 1974-89 gains erased . . . Currently, the public and almost everyone else has stepped away from the market, leaving program trading in charge. On some days 25% of the volume is due to programs.

NEXT MAILING: October 31